

Registered in England No. 02652253

WEST MIDLANDS TRAVEL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2017

WEST MIDLANDS TRAVEL LIMITED

Annual Report and Financial Statements for the Year Ended 31 December 2017

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WEST MIDLANDS TRAVEL LIMITED

STRATEGIC REPORT

The Directors present the Strategic Report for the year ended 31 December 2017 for West Midlands Travel Limited (the "Company"). The Directors in preparing this strategic report, have complied with section 414c of the Companies Act 2006.

Principal activities and future developments

The principal activity of the Company is the operation of Bus services. There are no plans to change the activities of this Company.

Business review

High unemployment and low economic growth continues to impact on the West Midlands marketplace. Nevertheless the business retains its key strengths.

The Company has an extensive network, offering a high frequency, value for money service to customers. The Company's strong branded ticketing encourages customer loyalty, whilst multi-operator ticketing supports a competitive market.

Cost control programmes, in areas including driver productivity and engineering excellence continue to make progress.

In addition, revenue growth initiatives continue, including bulk sales to big employers and institutions; network reviews; marketing; and investment in improving fleet quality.

The Company's partnerships with local stakeholders are vital to create the right environment to operate its business successfully. The Company works with the local integrated transport authority, Transport for West Midlands, and seven local authorities to promote transport across the region. The rolling programme of network reviews continues.

The Company's key financial performance indicators during the year were as follows:

	2017 £'000	2016 £'000	%
Revenue - £	270,002	270,631	(0.2)%
Operating profit - £	30,686	31,357	(2.1)%
Shareholders' funds - £	24,517	17,926	36.8 %

Revenue remained flat in the year at £270,002,000 compared to £270,631,000 in 2016.

Operating profit for the year amounted to £30,686,000 (2016: £31,357,000) representing a decrease of £671,000. Retained profit for the year of £19,985,000 (2016: £26,157,000) has been transferred to reserves.

Shareholders' funds increased as a result of net movements in the retained profits, taxation adjustments, dividends and actuarial movements in respect of the Company's defined benefit pension scheme.

WEST MIDLANDS TRAVEL LIMITED

STRATEGIC REPORT (continued)

Health and Safety

The safety of customers, employees and the general public is key to the Company's operations. During 2017 the enhanced focus on safety continued.

The majority of the Company's buses have CCTV systems leading to the availability of more and better images of on-board activity coupled with campaigns informing passengers that CCTV technology is in use.

Further discussion on corporate responsibility, including Health & Safety and Environment, in the context of the group as a whole can be found in the "Our Vision and Values" section of the National Express Group PLC Annual Report & Financial Statements.

Environment

The Company remains committed to reduce carbon emissions through its day to day activities and focuses on the three main areas of fuel, site energy and waste to landfill. Capital investment in new, low carbon and fuel efficient fleet continued in 2017 with 38 new vehicles being received.

The Company continues to show improvement against carbon emissions KPIs, showing a reduction in carbon emissions per million passenger kilometres year on year. In addition, year on year reductions have been achieved in energy and water consumption.

The Company's significant contribution in reducing the group's carbon emissions were a key factor in the group again being awarded the Carbon Saver Gold award for reductions in carbon emissions.

Operational review

Improvements continued to be made to service quality across the operation, whilst continuous review of timetables and routes enabled revisions to be made to reflect changes in both long term and short term demand.

Employees

The UK Bus People Strategy is based upon the following key areas: health and well-being; reward and recognition; performance management, talent and development; resourcing and organisational design; partnerships and stakeholders and culture and engagement. All our human resources activities are structured around these areas.

The Company strive at all times to be absolutely fair, reasonable and professional in all its dealings with its employees. The Company has a diverse range of employees, reflecting well the communities it serves, and is committed to ensuring that all individuals are treated equally, with respect and are valued irrespective of disability, race, gender, health, social class, sexual preference, marital status, nationality, religion, employment status, age or membership or non-membership of a trade union.

Full and fair consideration is given to applications for employment received from disabled persons, according to their skills and capabilities. The services of any existing employee disabled during their period of employment are retained wherever possible.

One of the five core corporate Values of National Express Group is People and the Company recognises the impact that a well-trained, motivated and led workforce can have on customer satisfaction and business performance. Employee engagement is a key priority for the business and is measured every year with an employee survey. The results of this survey are extensively analysed and used to develop detailed action plans which incorporate both division-wide initiatives and local actions specific to

WEST MIDLANDS TRAVEL LIMITED

STRATEGIC REPORT (continued)

Employees (continued)

individual sites. Both the results and the action plans are communicated widely across the business and progress against the plans is monitored at Business Review Meetings alongside all the financial and operational key performances indicators. It was very encouraging that the latest employees survey results showed the highest ever level of employee engagement across the business, with some of the Company's targeted people initiatives clearly making a significant impact.

The Company places considerable value on the involvement of its employees and has a number of mechanisms to achieve this. These include: Garage Councils; regular consultative meetings with all the different trade union representatives; a 'Women's National Express' (WNX) working group (dealing specifically with gender equality issues); garage focus groups; health and safety meetings and other informal meetings.

Effective communication is a key part of the Company's employee engagement strategy and the Company consults with and keeps employees informed about issues which affect them, safety matters and about the performance of the business through: individual National Express email accounts for all employees; an on-line portal to access relevant information; divisional and local newsletters; 'toolbox talks'; team meetings and specific briefing sessions.

Financial risk management objective and policies

a) Cash flow risk

The Company's activities expose it to market risks relating to fuel prices. It is the Company's policy to hedge this exposure in order to provide a level of certainty as to costs in the short term and to reduce the year on year fluctuations over the medium term. This is achieved by entering into fuel derivatives details of which can be found in note 21.

Interest bearing liabilities are held at fixed rates to ensure certainty of cash flows.

b) Credit risk

The Company's principal financial assets are bank balances, trade and other receivables. The risk is mitigated by a number of factors including many of the debtors being with other companies within the National Express Group or with public bodies. The Company has implemented policies that require appropriate credit checks on potential customers before sales commence.

c) Liquidity risk

In order to maintain liquidity to ensure sufficient funds are available for ongoing operations and future developments, the Company uses a mixture of short and long term planning.

Approved by the Board and signed on its behalf by:

T F Stables
Director



Date: 20 September 2018

Registered Office:
51 Bordesley Green
Birmingham
B9 4BZ

WEST MIDLANDS TRAVEL LIMITED

DIRECTORS' REPORT

The Directors present the annual report and audited financial statements for the year ended 31 December 2017.

Principal activities and future developments

The principal activities, future developments and key risks and uncertainties of the Company are described in the Strategic Report.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future being at least twelve months from the date of signing the financial statements. Accordingly, the financial statements have been prepared on a going concern basis. The Company is primarily funded through the cash held in the Company's bank accounts. It is not expected that the Company will require funding from the parent undertaking in the foreseeable future.

Dividends

The Directors do not propose the payment of a final dividend (2016: £Nil). An interim dividend of £10,000,000 was paid during the year (2016: £Nil) and no dividend was received (2016: £Nil).

Directors and their interests

The Directors of the Company who served during the year and up to the date of signing this report, together with their dates of appointment and/or resignation where appropriate, were:

D Bradford (appointed 19 June 2017)
P T Coates (resigned 30 April 2017)
A Cook (appointed 19 June 2017)
M D Hancock
S Parker (resigned 28 April 2017)
T F Stables (appointed 2 May 2017)
I D Stevens (resigned 13 April 2017)
P Thomas (resigned 7 July 2017)
K Gale (appointed 11 October 2017)
R S Saund (appointed 11 October 2017 and resigned 11 July 2018)

The Directors served throughout the year or from the date of their appointment if later or to the date of their resignation.

Directors' qualifying third party indemnity provision

Under the Company's Articles of Association the Company provides an indemnity for its Directors and officers in accordance with the provisions of the Companies Act 2006.

WEST MIDLANDS TRAVEL LIMITED

DIRECTORS' REPORT (continued)

Directors' statement as to disclosure of information to the Auditor

The Directors who held office at the date of approval of the Directors' Report and Strategic Report confirm that:

- to the best of each Directors' knowledge there is no information relevant to the preparation of their audit report to which the Company's auditor is unaware; and
- each Director has taken all steps that a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of section 418 of the Companies' Act 2006.

Auditor

Deloitte LLP has indicated its willingness to be re-appointed for another term. Appropriate arrangements have been put in place for them to be re-appointed as auditor in the absence of an Annual General Meeting

Approved by the Board and signed on its behalf by:



T F Stables
Director

Date: 20 September 2018

Registered Office:
51 Bordesley Green
Birmingham
B9 4BZ

WEST MIDLANDS TRAVEL LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS101 "Reduced Disclosure Framework". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**INDEPENDENT AUDITOR'S REPORT
to the members of West Midlands Travel Limited**

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of West Midlands Travel Limited (the 'Company'):

- give a true and fair view of the state of the company's affairs as at 31st December 2017 and of its [profit/loss] for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework" and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the statement of accounting policies; and
- the related notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT (continued) to the members of West Midlands Travel Limited

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in [the strategic report and] the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

**INDEPENDENT AUDITOR'S REPORT (continued)
to the members of West Midlands Travel Limited**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in [the strategic report or] the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Peter Gallimore FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham

20 September 2018

WEST MIDLANDS TRAVEL LIMITED

Profit and Loss Account For the Year Ended 31 December 2017

	Note	2017 £'000	2016 £'000
Revenue	3	270,002	270,631
Operating costs	4	<u>(239,316)</u>	<u>(239,274)</u>
Operating profit	4	30,686	31,357
Operating exceptional items	4	<u>(7,602)</u>	<u>-</u>
Operating profit post exceptional items		23,084	31,357
Interest receivable and similar income	8	35	1
Interest payable and similar charges	9	(297)	(527)
Other finance payable	26	<u>(3,275)</u>	<u>(2,168)</u>
Profit on ordinary activities before taxation		19,547	28,663
Tax on profit on ordinary activities	10	<u>(2,630)</u>	<u>(2,506)</u>
Profit for the financial year attributable to the owners of the Company		<u>16,917</u>	<u>26,157</u>

Results are from both continuing and discontinued operations.

The notes on pages 15 to 38 form part of these financial statements.

WEST MIDLANDS TRAVEL LIMITED

Statement of Comprehensive Income for the Year Ended 31 December 2017

	2017	2016
	£'000	£'000
Profit for the financial year	16,917	26,157
Actuarial loss for the year on the defined benefit pension scheme	(5,633)	(71,505)
Deferred tax on actuarial loss above	958	10,957
Profit/(Loss) on cash flow hedges	(1,216)	8,689
Reclassification of financial derivatives	2,254	8,290
Deferred tax on cash flow hedges	(176)	(2,793)
Total comprehensive income / (loss) relating to the financial year attributable to owners of the company	<u>13,104</u>	<u>(20,205)</u>

WEST MIDLANDS TRAVEL LIMITED

Balance Sheet As at 31 December 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Tangible fixed assets	10	160,008	153,491
Intangible assets	11	2,061	2,245
Investments in subsidiary undertakings	12	8,480	8,480
Deferred tax assets	13	25,879	23,172
		<u>196,428</u>	<u>187,388</u>
Current assets			
Stocks	14	1,641	1,972
Debtors	15	22,806	15,270
Cash at bank and in hand	16	16,397	24,449
		<u>40,844</u>	<u>41,691</u>
Creditors : amounts falling due within one year	17	<u>(72,442)</u>	<u>(74,211)</u>
Net current liabilities		<u>(31,598)</u>	<u>(32,520)</u>
Total assets less current liabilities		164,830	154,868
Creditors : amounts falling due after more than one year	18	(2,423)	(3,457)
Derivative financial instruments	20	243	(795)
Provisions for liabilities	21	<u>(7,398)</u>	<u>(4,168)</u>
Net assets before pension liability		155,252	146,448
Net pension liability	26	<u>(133,803)</u>	<u>(128,522)</u>
Net assets		<u>21,449</u>	<u>17,926</u>
Capital and reserves			
Called up share capital	23	97	97
Share premium account		796	796
Capital reserve		(254)	(254)
Hedging reserve		201	(660)
Profit and loss account		20,609	17,947
Shareholders' funds		<u>21,449</u>	<u>17,926</u>

The financial statements of West Midlands Travel Limited, registered number 02652253, were approved and authorised for issue by the Board of Directors on 20 September 2018 and were signed on its behalf by:



T F Stables
Director

WEST MIDLANDS TRAVEL LIMITED

Statement of Changes in Equity for the Year Ended 31 December 2017

	Called up Share capital £'000	Share premium account £'000	Capital reserve £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2016	97	796	(254)	(14,846)	51,918	37,711
Actuarial loss for the year (net of deferred tax)	-	-	-	-	(60,548)	(60,548)
Hedge movements (net of deferred tax)	-	-	-	14,186	-	14,186
Share-based payments	-	-	-	-	420	420
Dividend paid	-	-	-	-	-	-
Profit for the year	-	-	-	-	26,157	26,157
At 31 December 2016	<u>97</u>	<u>796</u>	<u>(254)</u>	<u>(660)</u>	<u>17,947</u>	<u>17,926</u>
Actuarial loss for the year (net of deferred tax)	-	-	-	-	(4,675)	(4,675)
Hedge movements (net of deferred tax)	-	-	-	861	-	861
Share-based payments	-	-	-	-	420	420
Dividend paid	-	-	-	-	(10,000)	(10,000)
Profit for the year	-	-	-	-	16,917	16,917
At 31 December 2017	<u>97</u>	<u>796</u>	<u>(254)</u>	<u>201</u>	<u>20,609</u>	<u>21,449</u>

The notes on pages 15 to 38 form part of these financial statements.

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017

1. General information

West Midlands Travel Limited (the Company) is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the registered office is 51 Bordesley Green, Birmingham, B9 4BZ.

The financial information is presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

2. Significant accounting policies

Basis of accounting

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, these financial statements were prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payment, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions. This information comprises separate financial statements.

The Company is exempt from the preparation of consolidated financial statements, because it is included in the group financial statements of National Express Group PLC. Where required, equivalent disclosures are given in the group financial statements of National Express Group PLC. The group financial statements of National Express Group PLC are available to the public and can be obtained as set out in note 30.

The financial information has been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. The principal accounting policies adopted are set out below.

Significant accounting judgements and key sources of estimation uncertainty

The preparation of Financial Statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge, actual results may ultimately differ from those estimates.

The key accounting judgements are:-

Pensions and other post-retirement benefits

Determining the amount of the Company's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made concerning long term interest rates, inflation, salary and pension increases, investment returns and longevity of current and future pensioners. Changes in these assumptions could significantly impact the amount of the obligations or the cost of providing such benefits.

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

2. Significant Accounting Policies (continued)

The Company makes assumptions concerning these matters with the assistance of advice from independent qualified actuaries. Details of the assumptions made are set out in note 26.

Key accounting estimates are:-

Insurance

The estimation of the insurance provisions is based on an assessment of the expected settlement on known claims together with an estimate of settlements that will be made in respect of incidents occurring prior to the Balance Sheet date but for which claims have not been reported to the Company. The Company makes assumptions concerning these judgemental matters with the assistance of advice from the Third Party Administrator (TPA), responsible for the management of claims on behalf of the Company.

Tax provisions

Assessing the outcome of tax uncertainties requires judgements to be made regarding the result of negotiations with and enquiries from tax authorities in a number of jurisdictions. Management assessments are supported by external advisors where appropriate based on our business transaction facts and circumstances and the status of ongoing discussions with the relevant tax authorities.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future being at least twelve months from the date of signing the financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

Revenue recognition

Passenger revenue is recognised by reference to the stage of completion of the customer's travel or service provided under contractual arrangements as a proportion of total services to be provided. Other revenue, which comprises advertising revenue and Metro operating fee income is recognised when the service is provided.

Operating exceptional items

Operating exceptional items are material items of income or expenditure which due to their nature and infrequency require separate identification on the face of the profit and loss account to allow a better understanding of the financial performance in the year, in comparison to prior years.

Taxation

The charge for taxation is based on the profit for the year and takes into consideration timing differences arising as a result of different treatments of certain items for taxation and accounting purposes.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

2. Significant Accounting Policies (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Investments

Fixed asset investments are stated at cost less provision for any impairment in value. They are subject to an annual test of impairment and an impairment charge recognised as required.

Leased assets and obligations

Assets held under finance leases and similar hire purchase contracts are capitalised in the balance sheet as property, plant and equipment and are depreciated on the basis stated below. The obligations relating to finance leases (net of finance charges allocated to future years) are included, as appropriate, under creditors due within or after one year. Finance charges are allocated to accounting periods over the period of each lease in accordance with the interest rate inherent in each lease.

Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

Intangible fixed assets

Intangible fixed assets are measured initially at purchase/internal cost and are amortised on a straight-line basis over their estimated useful lives or otherwise in line with any specific external contractual agreements which apply.

Tangible fixed assets

Property, plant and equipment are stated at cost less any accumulated depreciation and any accumulated impairment losses, with the exception of certain properties that have been stated at deemed cost.

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

2. Significant Accounting Policies (continued)

Depreciation is provided on a straight line basis on all property and plant and equipment on the following basis:

Freehold buildings	10 to 40 years
Leasehold premises	15 to 40 years (or period of lease if shorter)
Infrastructure assets	10 years
Buses and coaches	10 to 18 years
Other vehicles	3 to 5 years
Plant and equipment	3 to 10 years

The carrying values of property, plant and equipment are reviewed for impairment at each balance sheet date or if events or changes in circumstances indicate the carrying value may not be recoverable.

Government grants

Government grants are recognised in the Profit and Loss Account on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants relating to property, plant and equipment are treated as deferred income and released to the profit and loss account over the expected useful economic life of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

Stocks

Stocks are valued at the lower of cost and net realisable value on a first in-first out basis, after making due allowance for obsolete or slow moving items.

Impairment of non-financial assets

All non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows.

In assessing value in use, the estimated risk adjusted future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Impairment losses are recognised in the Profit and Loss Account in expense categories consistent with the function of the impaired asset.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Company's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

2. Significant Accounting Policies (continued)

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in other comprehensive income. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Share-based payments

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant by an external valuer using a stochastic model. Non-market-based performance-related vesting conditions are not taken into account when estimating the fair value; instead those non-market conditions are taken into account in calculating the current best estimate of the number of shares that will eventually vest and at each balance sheet date before vesting. The cumulative expense is calculated based on that estimate.

Market-based performance conditions are taken into account when determining the fair value and at each balance sheet date before vesting, the cumulative expense is calculated irrespective of whether or not the market conditions are satisfied, provided that all other performance conditions are met. For non market-based performance conditions at each balance sheet date before vesting, the cumulative expense is calculated based on the Company's estimate of the number of shares that will eventually vest, and the movement in cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in equity.

Insurance provisions

The Company's policy is to self-insure high frequency claims within the business. To provide protection above these types of losses, the Company purchases insurance cover from a selection of proven and financially strong insurers. These insurance policies provide individual claim cover subject to excess limits and aggregate stop losses for total claims within the excess limits. A provision is made on a discounted basis for the estimated cost to the Company to settle claims for incidents occurring prior to the balance sheet date, subject to the overall stop loss.

Financial instruments

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the Balance Sheet date which are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the Balance Sheet. The Company assesses at each Balance Sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

2. Significant Accounting Policies (continued)

Financial liabilities

When a financial liability is recognised initially, the Company measures it at its fair value. Financial liabilities include trade payables, accruals, other payables, borrowings and derivative financial instruments. All financial liabilities, other than those classified as fair value through profit or loss, are measured at amortised cost using the effective interest method.

Derivative financial instruments

The Company uses derivative financial instruments to hedge its risks associated with fuel price. These instruments are initially recognised at fair value and subsequently remeasured to fair value for the reported Balance Sheet. The fair value is calculated by reference to fuel prices at the year end.

The derivatives are designated as cash flow hedges. The gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity, with any material ineffective portion recognised in the Profit and Loss Account. The gains or losses deferred in equity in this way are recycled through the Profit and Loss Account in the same period in which the hedged underlying transaction or firm commitment is recognised in the Profit and Loss Account.

For derivatives that do not qualify for hedge accounting, gains or losses are taken directly to the Profit and Loss Account in the period.

Hedge accounting is discontinued when the hedging instrument expires, is sold, terminated, exercised, or no longer qualifies for hedge accounting.

New standards and interpretations not applied

At the date of authorisation of these Financial Statements, the Group has not applied the following standards that have been issued but are not yet effective:

IFRS 9 'Financial Instruments' addresses accounting for our financial assets and financial liabilities. As part of this, it introduces new rules for hedge accounting and a new impairment model for financial assets. The Company has reviewed its existing financial assets and liabilities accounting and expects to make a number of transitional adjustments, including an increase in the impairment provision for trade and other receivables. This will be effective from 1 January 2018.

IFRS 15 'Revenue from Contracts with Customers' is based on the principle that revenue is recognised when control of a good or service transfers to a customer. We have reviewed a sample of contracts from across the Company and do not envisage a material impact from the adoption of this standard. This will be effective from 1 January 2018.

IFRS 16 'Leases' will primarily effect the accounting for the Company's operating leases and will result in an increase in the number of leases being recognised on the balance sheet as the distinction between operating and finance leases is removed. The new standard will be adopted on 1 January 2019. An assessment of the impact is ongoing and we will formally conclude on this in 2018. This will be effective from 1 January 2019.

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

3. Revenue

An analysis of the Company's revenue is as follows:

	2017 £'000	2016 £'000
Passenger revenue	252,923	254,928
Other revenue	17,079	15,703
	<u>270,002</u>	<u>270,631</u>

Revenue is stated net of value added tax where applicable and is wholly derived within the United Kingdom.

4. Profit for the year

	2017 £'000	2016 £'000
Operating profit is stated after charging/(crediting):		
Fees payable to the Company's auditor:		
- The audit of the Company financial statements	36	33
- Non-audit services	-	-
Depreciation of tangible fixed assets		
- Owned	13,044	12,785
- Leased	1,470	2,750
Amortisation of intangible fixed assets	202	155
Loss/(Gain) on disposal of tangible fixed assets	(186)	56
Cost of stock recognised as expense	11,688	11,288
Staff costs (see note 5)	144,918	142,637
Rentals under operating leases		
- Plant and machinery	1,746	1,727
- Other assets	2,905	2,815
Provision against amount owed by Group undertaking	935	(265)
	<u>7,602</u>	<u>-</u>
Exceptional items		

The exceptional item relates to a reorganisation of the UK management structure was undertaken leading to an exceptional item in regard to the restructuring and carrying value of tangible fixed assets in February 2017 and provision for the transfer of the Midland Metro to Midland Metro Limited.

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

5. Staff costs

	2017	2016
	£'000	£'000
Wages and salaries	126,516	126,120
Social security costs	11,981	11,265
Pension costs - defined contribution scheme (Note 26)	1,802	1,826
Pension costs - defined benefit scheme (Note 26)	4,199	3,006
Share based payments (Note 6)	420	420
	<u>144,918</u>	<u>142,637</u>

The monthly average number of persons employed by the Company during the year was:

	2017	2016
	Number	Number
Managerial and administrative	169	170
Operational	<u>4,794</u>	<u>4,825</u>
	<u>4,963</u>	<u>4,995</u>

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

6. Directors' remuneration

Total remuneration for all Directors in respect of qualifying services as a Director of the Company:

	2017 £'000	2016 £'000
Aggregate emoluments	1,162	803
Company contributions to money purchase pensions	<u>61</u>	<u>60</u>
	<u>1,223</u>	<u>863</u>

The Directors of the Company are also Directors of a number of other companies in the National Express Group.

Retirement benefits accrued to 7 (2016: 4) Directors under a money purchase pension scheme and no Director accrued (2016: nil) under defined benefit schemes.

One Director who is remunerated by the Company exercised share options during the year.

Qualifying services of highest paid Director:

	2017 £'000	2016 £'000
Aggregate emoluments	<u>573</u>	<u>412</u>

Pension contributions to a defined contribution scheme of £25,000 (2016: £9,000) were paid in respect of the highest paid Director.

The highest paid Director exercised share options and was granted share options during the year.

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

7. Interest receivable and similar income

	2017 £'000	2016 £'000
Interest from subsidiaries and ultimate holding company	35	-
Other interest	-	1
	<u>35</u>	<u>1</u>

8. Interest payable and similar charges

	2017 £'000	2016 £'000
Finance leases and hire purchase contracts	77	180
Other interest payable	(35)	99
Unwinding of discounting on insurance provisions (Note 22)	185	170
Unwinding of discounting on accrued holiday provision	70	78
	<u>297</u>	<u>527</u>

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

9. Tax on Profit on Ordinary Activities	2017 £'000	2016 £'000
a) Analysis of tax charge in the year		
Current tax	(5)	1,364
United Kingdom corporation tax	<u>4,561</u>	<u>2,504</u>
Adjustments in respect of prior periods	4,556	3,868
Total current tax		
Deferred tax	3,239	3,249
Origination and reversal of timing differences	60	568
Defined benefit pension scheme	-	261
Effect of change in tax rate	<u>(5,225)</u>	<u>(5,440)</u>
Prior year adjustment	<u>(1,926)</u>	<u>(1,362)</u>
	<u>2,630</u>	<u>2,506</u>
Tax on profit on ordinary activities		
b) Factors affecting the total tax charge for the year		
Profit on ordinary activities before taxation	<u>19,547</u>	<u>28,663</u>
Notional charge at UK corporation tax rate of 19.25% (2016: 20%)	3,763	5,733
Utilisation of unrecognised capital losses	(48)	-
Permanent disallowable items	17	119
Impact of rate change	(437)	(413)
Transfer pricing	-	3
Adjustments in respect of prior periods deferred tax	(5,225)	(5,440)
Adjustments in respect of prior periods corporation tax	<u>4,561</u>	<u>2,504</u>
Total tax	<u>2,631</u>	<u>2,506</u>
c) Tax on items recognised on other comprehensive income or equity		
Deferred tax (credit)/charge on actuarial movements	(958)	(10,958)
Deferred tax charge on cash flow hedges	<u>176</u>	<u>2,793</u>
	<u>(782)</u>	<u>(8,165)</u>
d) Factors affecting future charges		

Reductions in the future UK corporation tax rates from 20% to 19% and then 18% were substantively enacted in July 2015 and will take effect in April 2017 and April 2020 respectively. The Finance Act 2016 which was substantively enacted on September 2016, included provisions to reduce the corporation tax to 17% from April 2020. Accordingly, deferred tax balances have been revalued to the lower rate of 17% in these financial statements. To the extent the deferred tax reverses before 1 April 2020 then the impact on the net deferred tax liability will be reduced.

The blended current rate is 19.25% and deferred tax has been recognised at 17%.

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

10. Tangible Fixed Assets

	Land and buildings		Infra- structure £'000	Public service vehicles £'000	Vehicles, plant and equipment £'000	Company total £'000
	Freehold £'000	Short lease £'000				
Cost or valuation						
At 1 January 2017	10,487	742	521	246,418	30,458	288,626
Additions	1,201	-	-	12,007	11,057	24,265
Group transfers in	-	-	-	172	-	172
Group transfers out	-	-	-	(1,438)	-	(1,438)
Disposals	-	-	-	(11,669)	-	(11,669)
At 31 December 2017	<u>11,688</u>	<u>742</u>	<u>521</u>	<u>245,490</u>	<u>41,515</u>	<u>299,956</u>
Depreciation						
At 1 January 2017	4,432	569	521	105,252	24,361	135,135
Group transfers in	-	-	-	155	-	155
Group transfers out	-	-	-	(890)	-	(890)
Disposals	-	-	-	(11,598)	-	(11,598)
Exceptional charge	-	-	-	2,632	-	2,632
Charge for the year	650	35	-	12,085	1,744	14,514
At 31 December 2017	<u>5,082</u>	<u>604</u>	<u>521</u>	<u>107,636</u>	<u>26,105</u>	<u>139,948</u>
Net book value						
At 31 December 2017	<u>6,606</u>	<u>138</u>	<u>-</u>	<u>137,854</u>	<u>15,410</u>	<u>160,008</u>
At 31 December 2016	<u>6,055</u>	<u>173</u>	<u>-</u>	<u>141,166</u>	<u>6,097</u>	<u>153,491</u>

The net book value at 31 December 2017 for land and buildings above includes freehold land of £96,000 (2016: £96,000) which is not depreciated.

The net book value of tangible assets held under finance lease and hire purchase agreements is as follows:

	Public service vehicles £'000
At 31 December 2017	<u>5,255</u>
At 31 December 2016	<u>6,749</u>

The depreciation charge for the year on these assets amounted to £1,470,000 (2016: £2,750,000).

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

11. Intangible Fixed Assets

Operator investment represents costs incurred to facilitate the extension of the Midland Metro tram system.

	Operator investment £'000	Computer Software £'000	Company total £'000
Cost or valuation			
At 1 January 2017	1,681	3,988	5,669
Additions	-	18	18
At 31 December 2017	<u>1,681</u>	<u>4,006</u>	<u>5,687</u>
Depreciation			
At 1 January 2017	-	3,424	3,424
Charge for the year	-	202	202
At 31 December 2017	<u>-</u>	<u>3,626</u>	<u>3,626</u>
Net book value			
At 31 December 2017	<u>1,681</u>	<u>380</u>	<u>2,061</u>
At 31 December 2016	<u>1,681</u>	<u>564</u>	<u>2,245</u>

This investment will start to be amortised, in line with the franchise agreement, when the extension profits exceed the agreed base profit levels. The franchise agreement provides that at the end of the franchise, any unamortised investment costs will be recovered from the franchisor. A provision for such exposure was made within the National Express Group PLC financial statements and no provision has been made in the Company's financial statements (Note 27).

12. Fixed Asset Investments

a) Investment in subsidiary undertakings

	£'000
Cost	
At 31 December 2016 and 31 December 2017	<u>20,821</u>
Provision	
At 31 December 2016 and 31 December 2017	<u>(12,341)</u>
Net book value	
At 31 December 2016 and 31 December 2017	<u>8,480</u>

The provisions relate to Altram LRT Limited, Travel West Midlands Limited and Taybus Holdings Limited.

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

13. Fixed Asset Investments (continued)

a) Investments in subsidiary undertakings (continued)

The investment in the Company's subsidiary undertakings which were trading or active at 31 December 2017 consisted of the following:

	Country of registration	% of voting rights and shares held
Altram LRT Limited	England and Wales	100
Taybus Holdings Limited	Scotland	100
Tayside Public Transport Company Limited	Scotland	100
WM Ventures Limited	England and Wales	100
WM Property Holdings Limited	England and Wales	100
National Express Manchester Metrolink Limited	England and Wales	100
Travel Birmingham Limited	England and Wales	100
Travel Coventry Limited	England and Wales	100
WM Card Systems Limited	England and Wales	100
WM Travel Limited	England and Wales	100
Travel West Midlands Limited	England and Wales	100
Travel WM Limited	England and Wales	100
Travel Yourbus Limited	England and Wales	100
Travel Merryhill Limited	England and Wales	100
West Midlands Transport Information Services Limited	England and Wales	20
Travel Dundee Limited	Scotland	100

WM Property Holdings Limited and Tayside Public Transport Company Limited are held indirectly through a subsidiary Company.

All the above companies operated principally in their country of registration. All holdings are of £1 ordinary shares. The percentage holdings shown above are the interest in the nominal value of the shares held and in all cases the percentage of voting rights held is the same.

b) Interest in associated undertakings

The Company owns 20% of the share capital of West Midlands Transport Information Services Limited ("WMTIS"), a Company incorporated in England and Wales which provides passenger information on a not for profit basis. The investment (cost and carrying value) in the WMTIS share capital is £100 (2016: £100).

c) Dividends received

	2017 £'000	2016 £'000
Dividends received from subsidiary undertakings	-	-

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

13. Deferred tax asset

The deferred tax included in the balance sheet is as follows:

	2017 £'000	2016 £'000
Included in provisions for liabilities	-	-
Deferred tax assets	<u>25,879</u>	<u>23,172</u>
	<u>25,879</u>	<u>23,172</u>
Timing differences on tangible fixed assets and capital allowances	2,041	123
Short term timing differences	1,133	1,065
Pension costs	22,746	21,849
Derivative financial instruments	<u>(41)</u>	<u>135</u>
Total deferred tax	<u>25,879</u>	<u>23,172</u>
		£'000
At 1 January 2017 including deferred tax on pension liability		23,172
Deferred tax charged in profit and loss account		1,926
Amount credited to Statement of comprehensive income		<u>782</u>
At 31 December 2017 including deferred tax on defined benefit pension liability		<u>25,880</u>

The Company has unrecognised deferred tax assets in respect of capital losses of £1,759k (gross) (2016: £6,147k gross). These are unrecognised on the basis that no suitable capital gains are expected to arise in the foreseeable future against which these assets can be offset.

14. Stocks

	2017 £'000	2016 £'000
Engineering spare parts, spare units and fuel	<u>1,641</u>	<u>1,972</u>

If stocks were stated at replacement cost, the amounts above would not change significantly.

15. Debtors

	2017 £'000	2016 £'000
Trade debtors	6,988	3,023
Amounts owed by other group companies	5,134	5,073
Corporation tax	366	-
Other debtors	1,346	1,009
Prepayments and accrued income	<u>8,972</u>	<u>6,165</u>
	<u>22,806</u>	<u>15,270</u>

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

16. Cash at bank and in hand

	2017	2016
	£'000	£'000
Cash at bank and in hand	15,897	23,949
Short term deposit	500	500
	<u>16,397</u>	<u>24,449</u>

Short term deposit is with the Supreme Court and is required under Section 144 (1) of the Road Traffic Act 1988.

17. Creditors: amounts falling due within one year

	2017	2016
	£'000	£'000
Other obligations under finance leases (Note 20)	915	2,287
Trade creditors	11,559	11,566
Amounts owed to parent	9,248	3,413
Amounts owed to other group companies	3,159	-
Corporation tax	-	1,330
Other taxes and social security costs	3,613	3,536
Accruals and deferred income	43,608	51,742
Deferred fixed asset grants	340	337
	<u>72,442</u>	<u>74,211</u>

18. Creditors: amounts falling due after more than one year

	2017	2016
	£'000	£'000
Other creditors	-	-
Deferred fixed asset grants	2,423	2,542
Obligations under finance leases with a fellow group undertaking (note 20)	-	-
Other obligations under finance leases (note 20)	-	915
	<u>2,423</u>	<u>3,457</u>

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

19. Analysis of debt

	2017 £'000	2016 £'000
Due within one year		
Obligations under finance leases with a fellow group undertaking	-	-
Other obligations under finance leases	<u>915</u>	<u>2,287</u>
	<u>915</u>	<u>2,287</u>
Due within one to two years		
Obligations under finance leases with a fellow group undertaking	-	-
Other obligations under finance leases	<u>-</u>	<u>915</u>
	<u>-</u>	<u>915</u>
Due within two to five years		
Obligations under finance leases with a fellow group undertaking	-	-
Other obligations under finance leases	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>
Total debt	<u>915</u>	<u>3,202</u>

Obligations under finance leases are secured on the assets to which they relate.

20. Derivative financial instruments

The Company has the following derivatives that are designated and effective as hedging instruments carried at fair value:

	2017 £'000	2016 £'000
Cash flow hedges		
Fuel derivative (asset)/liabilities	<u>(243)</u>	<u>795</u>

The Company is exposed to movements in commodity prices as a result of its fuel usage. It is the policy of the ultimate parent, National Express Group PLC, to hedge this exposure in order to provide a level of certainty as to its cost in the short term and to reduce the year on year impact of price fluctuations over the medium term. This is achieved by entering into fuel derivatives.

The fuel derivative financial instruments are accounted for as cash flow hedges. They are initially recognised at fair value and subsequently remeasured to fair value at each reported Balance Sheet date. The fair value is calculated by reference to fuel prices at the period end.

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

21. Provisions for liabilities

	Insurance claims £'000	Other £'000	Total £'000
At 1 January 2017	4,168	-	4,168
Provided in the year	3,358	3,800	7,158
Utilised in the year	(4,113)	-	(4,113)
Unwinding of discount (Note 9)	185	-	185
At 31 December 2017	<u>3,598</u>	<u>3,800</u>	<u>7,398</u>

The other provision relates to the transfer of the Midland Metro to Midland Metro Limited (Note 26)

Insurance claims provision

The insurance claims provision arises from estimated liabilities at 31 December under the Company's insurance arrangements, the majority of which will be utilised in the next six years. The claims held within the insurance provision relate to the periods prior to 31 October 1995 and during the period 1 November 2000 to 31 December 2017. The claims relating to the intervening period were covered by either external insurance arrangements or through the National Express Group insurance programme.

	2017 £'000	2016 £'000
Outstanding insurance liability below one year	2,447	2,845
Outstanding insurance liability above one year	1,151	1,323
	<u>3,598</u>	<u>4,168</u>

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

22. Called up share capital

The Company's share capital is as follows:

	2017 £	2016 £
Authorised		
100,000,000 ordinary shares of 0.1p each	100,000	100,000
100 "A" ordinary shares of 1p each	1	1
2 deferred shares of £1 each	2	2
	<u>100,003</u>	<u>100,003</u>
Allotted, called up and fully paid		
97,276,400 ordinary shares of 0.1p each	97,276	97,276
2 deferred shares of £1 each	2	2
	<u>97,278</u>	<u>97,278</u>

There are deferred shares of £2 (2016: £2) that have no voting rights or any entitlement to participation in the profits or the assets of the Company.

23. Capital commitments

	2017 £'000	2016 £'000
Contracted	<u>3,520</u>	<u>9,406</u>

The capital commitments relate to tangible fixed assets, including new public service vehicles.

24. Operating lease commitments

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 Land and buildings £'000	2016 Land and buildings £'000	2017 Vehicles and plant £'000	2016 Vehicles and plant £'000
Operating leases which expire:				
- Within 1 year	381	375	1,801	1,678
- In 2 to 5 years inclusive	1,367	1,294	1,359	2,597
- Over 5 years	5,809	5,991	-	-
	<u>7,557</u>	<u>7,660</u>	<u>3,160</u>	<u>4,275</u>

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

25. Retirement benefits

The Company participates in the West Midlands Integrated Transport Authority Pension Fund, a defined benefit scheme which is closed to new entrants.

The assets of the scheme are held separately from those of the Company. Contributions to the scheme are determined by independent professionally qualified actuaries.

The employer's contributions made in respect of the Company in the year were £7,997,000 (2016: £8,688,000) which included an additional amount of £5,025,000 (2016: £5,500,000) in order to reduce the scheme deficit. With effect from 1 April 2014, the Company contributed 21.5% to March 2017 and 25.1% from April 2017 onwards of pensionable pay to the scheme. The expected employer contributions for 2018 are £10,700,000.

The valuation of the scheme as at 31 December 2017 is based on the results of the 31 March 2016 actuarial valuation, which has been updated by independent professionally qualified actuaries to take account of the requirements of IAS 19. The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The relevant assumptions used are as follows:

	2017	2016
Rate of increase in salaries	2.5%	2.5%
Rate of increase of pensions	2.2%	2.4%
Discount rate	2.5%	2.7%
Inflation assumption:RPI	3.2%	3.4%
Inflation assumption:CPI	2.2%	2.4%

Mortality assumptions - Current pensioners (retired in normal health)

Actuarial tables used	S2PA (110% males/110% females) YoB CMI_2015 1.25%	S1PA (111% males/103% females) YoB CMI_2013 1%
Life expectancy of Male (Female) current pensioner aged 65	21.5 (23.5) years	21.4 (24.2) years

Mortality assumptions - non retired members (retiring in the future in normal health)

Actuarial tables used	S1PA (111% males/103% females) YoB CMI_2013 1%	S1PA (111% males/103% females) YoB CMI_2013 1%
Life expectancy of Male (Female) future pensioner aged 65 in 20 years time	23.2 (25.4) years	22.8 (25.7) years

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

26. Retirement benefits (continued)

The assets in the scheme, the expected rates of return and the net pension liability were as follows:

	2017 £'000	2016 £'000
Total market value of assets	486,180	474,502
Present value of scheme liabilities	<u>(619,983)</u>	<u>(603,024)</u>
Deficit in scheme	<u>(133,803)</u>	<u>(128,522)</u>

In 2016 an annual deficit repayment programme totalling 2019/20: £7.6m, 2018/19: £7.8m (2017/18: £7.6m) for the years ending 31 March was agreed with the trustees of the West Midlands Integrated Transport Authority Pension Fund to fund the £104m scheme funding deficit for the next three years.

The major classes of assets as a percentage of total assets are as follows:

	2017 %	2016 %
Equities	20.9%	20.5%
Indexed linked gilts	5.4%	5.5%
Bonds	5.4%	5.1%
Insurance Policy	48.9%	51.4%
Diversified growth funds	19.3%	17.1%
Other	0.1%	0.4%
	<u>100.0%</u>	<u>100.0%</u>

Profit and loss account:

	2017 £'000	2016 £'000
Amounts charged to operating profit:		
Current service cost	4,206	3,006
Curtailement gain	-	-
Charge to operating profit	<u>4,206</u>	<u>3,006</u>
Net finance cost	3,275	2,168
Total charge to profit and loss account	<u>7,481</u>	<u>5,174</u>

Also included within operating profit is £168,000 of administrative expenses (2016: £174,000).

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

26. Retirement benefits (continued)

Statement of total recognised gains and losses

	2017 £'000	2016 £'000
Difference between expected and actual return on assets	17,596	50,786
Actuarial (loss) / gain arising on scheme liabilities	<u>(23,229)</u>	<u>(122,291)</u>
Actuarial (loss)	<u>(5,633)</u>	<u>(71,505)</u>

Changes in the present value of the defined benefit obligations are analysed as follows

	2017 £'000	2016 £'000
At 1 January	(603,024)	(484,045)
Current service cost	(4,206)	(3,006)
Curtailment	-	-
Contributions paid by scheme participants	(772)	(900)
Interest cost	(15,636)	(18,169)
Benefits paid	26,884	25,387
Actuarial (loss) / gain	<u>(23,229)</u>	<u>(122,291)</u>
At 31 December	<u>(619,983)</u>	<u>(603,024)</u>

Changes in the fair value of plan assets are analysed as follows

	2017 £'000	2016 £'000
At 1 January	474,502	423,688
Expected return on plan assets	12,334	16,001
Employer contributions	8,009	8,688
Contributions paid by scheme participants	772	900
Benefits paid	(26,884)	(25,387)
Administrative expenses	(168)	(174)
Actuarial gain/(loss)	<u>17,605</u>	<u>50,786</u>
At 31 December	<u>486,170</u>	<u>474,502</u>

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

26. Retirement benefits (continued)

History of experience gains and losses

	2017	2016	2015	2014	2013
	£'000	£'000	£'000	£'000	£'000
Defined benefit obligation	(619,983)	(603,024)	(484,045)	(493,149)	(450,683)
Value of scheme assets	486,170	474,502	423,688	433,981	400,663
Deficit in scheme	(133,813)	(128,522)	(60,357)	(59,168)	(50,020)
Experience gain/(losses) arising on scheme liabilities	(4,962)	1,357	(816)	(4,467)	(2,924)
Experience gain/(losses) arising on scheme assets	17,605	50,786	(9,124)	29,837	(3,243)

West Midlands Travel Limited operates a defined contribution pension schemes under the National Express Worksave Pension Plan, a Group Personal Pension provided by Legal & General.

Employer contribution rates are 1% of pensionable pay for auto enrolled employees, with former members of the National express UK pension scheme retaining a 2.5% employer contribution rate.

At 31 December 2017 there were 4,562 employees in the National Express Worksave Pension Plan (2016: 4,507). The pension cost for the year was £1,802,000 (2016: £1,826,000). Outstanding contributions at 31 December 2017 amounted to £388,000 (2016: £375,000).

26. Contingent liabilities

The Company is party to a series of cross guarantees relating to the bank accounts of fellow group companies amounting to £10,000,000 (2016: £10,000,000).

The Company is a guarantor to a number of its ultimate parent Company's financing agreements, consisting of a £400 million bond, a £225 million bond, a €250m floating rate note, a €78.5 million private placement, a £399 million revolving credit facility and £128 million of further committed revolving credit facilities. These are described in the National Express Group PLC 2017 Annual Report and Financial Statements.

27. Post balance sheet events

National Express has operated Midland Metro since its creation in 1999. Midland Metro Limited (MML) took the operation of the tram into public ownership on 24th June 2018 at which time the staff who operate the tram and associated assets transferred to MML.

The principal activity of the subsidiary Altram LRT Limited is the operation and maintenance of the Midland Metro Line 1 light rail system between Birmingham and Wolverhampton. As part of the proposed transfer of the operation of the Midland Metro to TfWM in 2018, possible obligations and / or impairments may arise in this Company and / or its subsidiary, Altram LRT Limited. A provision for such exposures has been made (Note 21)..

WEST MIDLANDS TRAVEL LIMITED

Notes to the financial statements for the Year Ended 31 December 2017 (continued)

28. Related party transactions

The Company has taken advantage of the exemption in FRS 101 from disclosing transactions with related parties that are wholly owned subsidiaries of National Express Group PLC.

Payments of £Nil (2016: £Nil) were made to West Midlands Transport Information Services Limited ("WMTIS"), an associated undertaking, for the receipt of services. Creditors due to WMTIS at 31 December 2017 are £Nil (2016: £Nil).

29. Ultimate parent and controlling undertaking

The Company's immediate parent undertaking is National Express Intermediate Holdings Limited. The Company is ultimately controlled by and is a wholly owned subsidiary undertaking of National Express Group PLC, a company registered in England and Wales.

The Company's ultimate parent and controlling company and the largest and smallest company in which the Company's results are consolidated, National Express Group PLC, registered in England and Wales.

Copies of the group financial statements of National Express Group PLC, the parent undertaking of the only group preparing group financial statements which include West Midlands Travel Limited, are available to the public and may be obtained from the Company Secretary, National Express Group PLC, National Express House, Birmingham Coach Station, Mill Lane, Digbeth, Birmingham B5 6DD.

